



ESG-Ratings of KfW Group

Measurement method for calculating the KPI "Top positioning in ESG Ratings"

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KEa3 – Sustainability Strategy

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The relevance of the ESG ratings

Investments that take into account Environmental, Social, and Governance (ESG) factors are gaining increasing significance in the financial world. Sustainable investment funds are attracting more capital, thereby creating an ESG investment ecosystem, including the provision of ESG ratings. These ratings, which assess a company's exposure and impact regarding ESG factors, are crucial for investor confidence and the functioning of capital markets. They are essential for investment strategies, risk management, and disclosure obligations, and help companies understand sustainability risks and opportunities. The market for ESG ratings is expected to grow due to changing corporate risks, increasing awareness of their financial impacts, and the growing availability of sustainable investment products (EU Commission 2023, p. 1).

The relevance of the KPI "Top positioning in ESG ratings" for KfW

The ESG ratings serve as an effective and independent tool to benchmark KfW's sustainability performance against peers and to create dynamic incentives for improvement. Since 2018, achieving a top position within the peer groups of international promotional and development banks in three leading ESG rating agencies (currently: ISS ESG Corporate Rating, Sustainalytics ESG Risk Rating, and MSCI ESG Rating) has been a core aspect of KfW's sustainability promotion principle. This goal is embedded in KfW's Strategic Objectives. The current rating results for KfW can be viewed [here](#).

What does the KPI measure?	The KPI measures how well KfW is positioned compared to its most relevant peers in terms of ESG management.
For what purpose?	<ul style="list-style-type: none">• To monitor external assessments of internal ESG management, as these significantly influence the decisions of investors in the capital market.• To perform benchmarking with best-in-class peers with similar business models that also prioritise ESG management.• For the continuous improvement of the ambition level.
What are the benefits of realisation?	<ul style="list-style-type: none">• A robust ESG management is prioritised across all departments and subsidiaries.• Impulses for improving performance in sustainability aspects are provided.• It ensures that KfW's sustainability standards are at the highest level.

Further Development of the KPI Measurement Method

Initial Situation

The previous KPI measurement method was proven effective in assessing the bank's positioning within the context of ESG ratings. KfW's position was determined by an average ranking. For calculating the average, the rankings of KfW within the peer groups of the three focus ESG rating agencies were used.

In recent years, KfW consistently achieved the predefined target value of the KPI "Top positioning in ESG ratings", which was to achieve at least the 5th place on average. An exception occurred in 2021, when one ESG rating agency had to be replaced because it discontinued its ESG rating for promotional and development banks. In the following year 2022, KfW was able to achieve the goal again.

Identification of the Peer Group: Further Development of the "Best of the Best" Peer Group

It became evident over time that a methodological improvement was needed to achieve even more precise and meaningful results from this KPI. In the previous approach rankings were used. However, these rankings of the highest-rated peers varied significantly between the ESG rating agencies due to their different methodologies for evaluating ESG aspects. Additionally, the peer groups showed extra volatility because the ESG rating agencies added or removed peers several times throughout the year. Furthermore, the peer groups of the ESG rating agencies also include financial institutions that do not have a comparable business model to KfW.

For these reasons, KfW has developed a method for the identification of a peer group to ensure an even better comparability and introduced a new, advanced benchmarking method in 2023. From now on, KfW will annually compile the KfW "Best of the Best" peer group itself. This peer group is composed of the top ten best-rated promotional and development banks from all three ESG rating agencies. The peer group can therefore contain a maximum of 30 peers, but there may be duplications, which lead to a smaller peer group. Only those peers that have a similar business model to KfW are considered relevant and included. This peer group is updated annually as soon as KfW's respective rating reports are published.

Description of the Process for Compiling the "Best of the Best" Peer Group

1. In the first of four steps to create the "Best of the Best" peer group, the top 15 peers from all three focus ESG rating agencies are identified.
2. Subsequently, those peers that do not have a comparable business model to KfW and cannot be rated due to the lack of data from all three ESG rating agencies are removed.
3. This results in the top 10 rated promotional and development banks from the three ESG rating agencies.
4. In the fourth step, the peers identified are combined to form the "Best of the Best" peer group.

KfW is aware that the new KfW's "Best of the Best" peer group can only include peers that have been rated by all three ESG rating agencies. It should be noted that if one peer is removed, another will take its place, ensuring that 10 peers from each ESG rating agency are always considered.

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Top 15 within the peer groups of the focus ESG rating agencies

Rank	Top 15 Sustainalytics	Top 15 ISS ESG	Top 15 MSCI
1	S1	I1	M1
2	S2	I2	M2
3	KfW	I3	M3
4	S3	I4	M4
5	S4	I5	M5
6	S5	I6	M6
7	S6	I7	KfW
8	S7	I8	M7
9	S8	KfW	M8
10	S9	I9	M9
11	S10	I10	M10
12	S11	I11	M11
13	S12	I12	M12
14	S13	I13	M13
15	S14	I14	M14

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Top 10 rated development banks

Rank	Top 10 Sustainalytics	Top 10 ISS ESG	Top 10 MSCI
1	S1	I1	M1
2	S2	I2	M2
3	KfW	I3	M3
4	S3	I4	M4
5	S5	I5	M5
6	S6	I6	KfW
7	S9	I7	M7
8	S11	I8	M8
9	S12	KfW	M9
10	S13	I9	M10

4

„Best of the Best“ peer group

Top 15 of all three Focus ESG rating agencies	Type of financing
Peer 1	Bilateral
Peer 2	Multilateral
Peer 3	Multilateral
Peer 4	Multilateral
Peer 5	Multilateral
Peer 6	Multilateral
Peer 7	Multilateral
Peer 8	Multilateral
Peer 9	Multilateral
KfW	Bilateral / National
Peer 10	National
Peer 11	Bilateral
Peer 12	Multilateral
Peer 13	National
Peer 14	Bilateral / National

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* Exemplary in red: Peers that were not classified as relevant due to their business model or that cannot be rated due to a lack of data from all three ESG rating agencies.

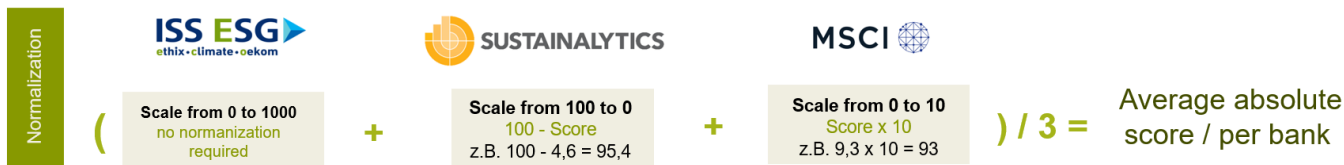
The rankings and/or scores in this figure are for illustrative purposes only.

Positioning of KfW: Further Development of the Calculation

In the previous approach, based on KfW's average ranking, a direct comparison with the peers could not be made. In the now annually updated "Best of the Best" peer group, the absolute scores achieved by the peers across all three ESG ratings are used. A normalisation of the scores allows for the determination of an average value for each peer, enabling a ranking and the determination of the distance between peers. This adjustment ensures that KfW conducts a meaningful benchmarking with its key peers.

Description of the Calculation of the Ranking with Normalised Scores

The average absolute score per bank is represented on a scale from 0 to 100, with 100 being the best possible score. To achieve this, it is first necessary to normalise the scores from Sustainalytics and MSCI. No normalisation is required for ISS, as their scores are already on a scale from 0 to 100. After the normalisation, it is possible to calculate the average absolute score per peer on a scale from 0 to 100. The rankings are determined based on these final scores.



The rankings and/or scores in this figure are for illustrative purposes only.

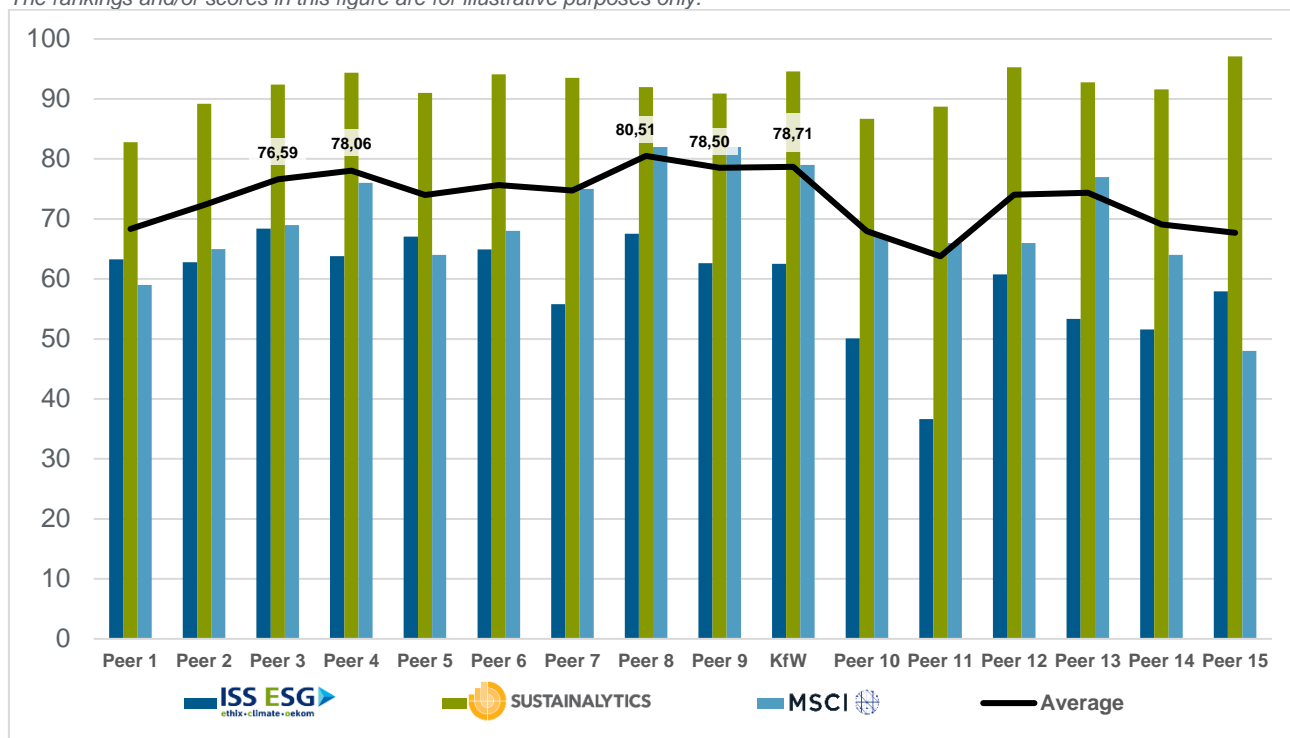
Explanation of the illustration: The rating score from ISS will not be normalised since it is already in a zero to one hundred scale. The score from Sustainalytics is given in a scale from one hundred to zero, where zero is the highest score. Thus, the achieved score is deducted from one hundred. The MSCI's score is given in a scale from zero to ten and the best possible score is 10. Therefore, it is multiplied by ten. All of these normalised scores are added and divided into three, in order to define the average absolute score for each bank.

Adjustment of the Ambition Level

By the application of the new measurement method using data from 2022 KfW ranked among the top three performing development and promotional banks. Against this backdrop, KfW's ambition level in relation to this KPI was adjusted. The goal starting from the fiscal year 2023 is to continuously rank among the top 3 of KfW's "Best of the Best" peer group.

Example: Implementation of the new measurement method

The rankings and/or scores in this figure are for illustrative purposes only.



Sources:

European Commission (2023): Regulation of the European Parliament and of the Council: On the transparency and integrity of Environmental, Social and Governance (ESG) rating activities.

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Picture credits

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